



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

March 1, 1999

MEMORANDUM FOR: Ronald Lawson
Director
National Technical Information Service

FROM: Johnnie E. Frazier
Acting Inspector General

SUBJECT: *NTIS's FY 1998 Financial Statements*
Audit Report No. FSC-10871-9-0001

The attached audit report presents an unqualified opinion on the fiscal year 1998 Financial Statements for the National Technical Information Service (NTIS). The unqualified opinion is especially noteworthy considering the significant changes mandated by OMB Bulletin No. 97-01, which required the preparation of four new financial statements. Also provided are reports on NTIS's internal controls and compliance with laws and regulations, including management's comments. The accompanying overview and financial statements were prepared by NTIS management.

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, an audited financial statement must be prepared covering all accounts and associated activities for each office, bureau, and activity of the Department. The independent certified public accounting firm of Ernst and Young LLP (E&Y) was contracted to audit NITS's Balance Sheet and related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for FY 1998. The Office of Inspector General defined the audit scope, selected the contractor, and oversaw the performance and delivery of the audit.

In the opinion of E&Y, the financial statements present fairly, in all material respects, the financial position of NTIS as of September 30, 1998, and the net costs of its operations; changes in net position; budgetary resources; and reconciliation of net costs to obligations for FY 1998, in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board.

Financial statement audits are a key gauge for measuring the progress of the a bureau in meeting the goals and objectives of the CFO Act. The results of the audit indicate that NTIS has been successful in establishing an internal control structure that facilitates the preparation of reliable accounting and financial information.

While E&Y's Report on Internal Controls contains no material weaknesses, it identifies one reportable condition in NTIS's internal control structure:

- NTIS did not use the proper United States Government Standard General Ledger accounts to summarize the results of its budgetary transactions.

E&Y identified one instance of material non-compliance in its Report of Compliance with Laws and Regulations. Under the Federal Financial Management Improvement Act of 1996, the auditors are required to report on whether the bureau's financial management system substantially complies with Federal financial management systems requirements, applicable accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level. NTIS's financial management systems were not found to comply with the SGL requirement.

Based on NTIS's FY 1998 financial position at year end and prior year trends, E&Y increased the audit scope to include procedures to determine whether the bureau has a going concern issue for FY 1999. After a review of NTIS's current financial position as of November 30, 1998, and its FY 1999 annual plan, E&Y concluded that NTIS does not have a going concern issue for FY 1999. However, we believe that NTIS's financial position should be closely monitored by management. If NTIS continues to report a loss at the current rate, NTIS will not have sufficient funds to sustain itself. NTIS requested a FY 2000 appropriation of \$5.69 million for its clearinghouse program; OMB reduced the request to approximately \$2.0 million.

Our office reviewed a draft version of NTIS's overview to its FY 1998 financial statements. The overview provides the linkage between the financial statements and the Government Performance and Results Act of 1993 that requires government entities to collect and report information on their performance in meeting goals and objectives. NTIS incorporated many of our prior year suggestions to improve the clarity and conciseness of the overview.

We informally provided NTIS management with a memo containing our observations and recommendations on the draft overview. Management was responsive, and indicated that NTIS plans to make additional revisions to strengthen the overviews for FY 1999 and beyond. The OIG realizes that improving the overview is an iterative process. We encourage NTIS to strengthen next year's discussion of actual results and to continue efforts to improve performance measurement and reporting.

As required by DAO 213-5, please provide an audit action plan addressing the recommendations in the attached report within 60 days of this memorandum. The format for the plan can be found in Exhibit 7 of the DAO. Under the DAO, the Office of Inspector General must concur with your proposal.

If you wish to discuss the contents of the report or the audit action plan, please contact George E. Ross, Assistant Inspector General for Audit, on (202) 482-1934, or Thomas McCaughey, Director, Financial Statements Audit Division, on (703) 603-0301. We appreciate the cooperation and courtesies extended by NTIS during the audit.

Attachment

cc: Gary Bachula
Acting Under Secretary for Technology

Linda J. Bilmes
Acting Chief Financial Officer and
Assistant Secretary for Administration

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